

## **FITCH RATES ALASKA MUNICIPAL BOND BANK AUTHORITY'S \$155MM GOS 'AA+'; OUTLOOK STABLE**

Fitch Ratings-New York-19 August 2015: Fitch Ratings assigns an 'AA+' rating to approximately \$155.1 million of Alaska Municipal Bond Bank Authority (bond bank) general obligation (GO) and refunding bonds, 2015 series three, issued under the bond bank's 2005 GO bond resolution.

The bonds are expected to sell via negotiation on or about Aug. 26 and 27, 2015.

In addition, Fitch affirms the following bond bank ratings:

--\$924.7 million outstanding 2005 GO bond resolution bonds at 'AA+';

--\$4.155 million outstanding 2010 GO bond resolution bonds at 'AA'.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are general obligations of the bond bank, for which the state also maintains a standing appropriation of state general fund resources to replenish the bonds' reserve fund in the event of borrower default. This standing appropriation is the basis for the assigned rating on the 2005 resolution bonds.

### **KEY RATING DRIVERS**

**STATE ANNUAL APPROPRIATION:** The state of Alaska includes as part of its annual debt service appropriation in its operating budget an appropriation for reserve fund replenishment in the event of a draw related to default by a participating municipality (borrower), resulting in a rating one notch below the state's 'AAA' GO rating.

**PROVEN STATE SUPPORT AND STRONG REPAYMENT HISTORY:** The bond bank's programs have a solid history of debt repayment, and the state of Alaska has a demonstrated history of support for and involvement with the bond bank. The bond bank has consistently worked with the state to strengthen bondholder protections while achieving its programmatic goals. The state's own resources are substantial.

**MULTIPLE LAYERS OF SECURITY:** Multiple layers of security support bond bank issues in the event of a local government's failure to pay debt service on its obligations to the bond bank. Security enhancements include underlying borrower reserve funds in some cases, bond bank reserve funds, unrestricted assets of the bond bank held in the custodian account, the state's standing appropriation for reserve fund replenishment, the state's statutory moral obligation, and the bond bank's statutory authority to intercept state aid to local governments. Coverage of maximum annual debt service by state aid is substantial.

### **RATING SENSITIVITIES**

The rating is sensitive to movement in the state of Alaska's GO bond rating to which it is linked.

### **CREDIT PROFILE**

The 'AA+' rating is based on the state's commitment to GO bonds of the bond bank issued under the 2005 GO resolution in the form of a standing appropriation of general funds for program reserve fund replenishment. GO bonds issued under the 2005 resolution also incorporate multiple layers

of security on both the borrower level and state level. Issuance requires either a borrower's GO or revenue pledge or other evidence of pledged revenues for allowable debt obligations, with a borrower reserve available for revenue bonds. Bond bank borrowers must demonstrate project essentiality and ability to repay in order to access financing. The current bonds will fund a major upgrade to a heat and power plant on the University of Alaska's Fairbanks campus; provide funding for four separate projects in Haines Borough, Kodiak Island Borough, and the city of King Cove; and refund outstanding bonds issued by the bond bank under its 2005 bond resolution.

The bond bank maintains a pooled program reserve fund for the 2005 resolution bonds, funded at approximately \$53 million as of Aug. 1, 2015, backed by a moral obligation of the state established by state statute requiring establishment of a reserve and that the bond bank seek a general fund appropriation in the event of a borrower's payment default. This pledge was strengthened with the bond bank's commitment to seek a standing appropriation for these bonds and the state's subsequent appropriation, beginning in fiscal 2009.

The bond bank was established in 1975 to provide access to low-cost capital financing for Alaska local governments. Not inclusive of the current sale, approximately \$974.7 million in 2005 GO resolution bonds are currently outstanding. The bond bank's limit for total bonds outstanding at any one time is almost \$1.6 billion; including the current sale, total bonds and obligations outstanding is expected to be just over \$1 billion, inclusive of debt issued under the 1976 and 2010 bond resolutions.

#### **BROADENING OF BOND BANK SCOPE**

The bond bank was authorized in 2014 to lend up to \$87.5 million to the University of Alaska for heating and energy projects, secured by a general revenue pledge from the university. The current issue will fund a loan to the university for the full authorization. Senate bill 46 was enacted in the 2015 legislative session that permits the issuance of bonds or notes by the bond bank to state joint action agencies under the 2005 resolution. SB 46 also permitted the issuance of bonds or notes secured by a revenue pledge of a regional health organization; however, this issuance would occur under a separate indenture and is subject to certain requirements. While Fitch believes these changes do not impact the rating on the bond bank's obligations, Fitch notes the broadening of the bond bank's role beyond its original scope.

#### **STRONG SECURITY PROVISIONS**

As noted above, the moral obligation for the bonds was strengthened by inclusion in the state's annual budget, beginning in fiscal 2010, of an appropriation to restore any deficiency in the 2005 program reserve fund. An appropriation for this purpose was included in the enacted budget for fiscal 2016. Further protections include a state intercept of local aid for borrowers and the ability to access the bond bank's unrestricted funds held in the custodian account. The custodian account, bolstered by recent state deposits, prior reserve releases, and funded at approximately \$14.6 million as of June 30, 2015, is expected to be maintained at this approximate level in future years.

Payments by the borrowers are due seven days prior to debt service payment; there have been no payment defaults under the program to date. Program reserve funding is required at the IRS maximum, and reserves are currently cash funded by bond proceeds and bond bank resources although external enhancement may be used. The bond bank intends to meet the reserve fund requirement on the current issue through a surety policy for the required contribution to the pooled program reserve fund. The bond bank is considering a gradual move to reserve funding that will be equally comprised of cash and surety policies. Fitch will continue to review the use of surety policies for the reserve requirement in regard to its relationship to our criteria for these types of obligations while noting that the cash-funded custodial account remains available to the bond bank to cure reserve deficiencies.

State statute requires the bond bank chair to certify annually the sum necessary to restore the program reserve to the required level. The appropriation for program reserve replenishment is included in the state's annual operating budget. A supplemental resolution for the 2005 resolution bonds requires the bond bank to seek the appropriation annually.

## ALASKA MAINTAINS SIZABLE RESERVES TO MITIGATE CHALLENGES

Alaska's 'AAA' GO rating reflects the state's maintenance of very substantial reserve balances and conservative financial management practices to offset significant revenue volatility linked to oil production from the North Slope and global petroleum price trends. For many years, the state has witnessed a gradual decline in production at its oil fields; however, tax revenues to the state have largely continued to increase as a factor of increased prices for Alaska North Slope (ANS) crude oil. The state prudently dedicated a substantial share of its oil tax revenue to reserves and has continued to employ long-range forecasting of its revenue, expenses, and natural resources industry. While the Spring 2015 revenue forecast projects modest increases in production in fiscal years 2016 and 2017, the state continues to forecast production declines over the long term.

As part of the state's long-range planning, reserve balances grew exponentially over the past several fiscal years. The sharp drop in crude oil prices in late 2014 caused a revenue shortfall in fiscal 2015 totaling over \$3.9 billion (64% of unrestricted general fund expenditures) that was covered by a draw from the state's vast financial reserves and the application of the state's previous forward funding for education expense in fiscal 2016. An additional reserve draw of approximately \$2.7 billion is projected by the state based on the enacted budget for fiscal 2016. Despite the planned applications, Fitch believes the state is committed to keeping reserve levels high.

For further information on the state, please see 'Fitch Rates Alaska's \$258MM Bonds and BANS; Affirms Outstanding GOs at 'AAA,' dated Feb. 27, 2015, which is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

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Applicable Criteria

Rating Guidelines for Moral Obligations (pub. 18 Apr 2013)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=704882](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704882)

Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686033](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033)

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